

Message Text

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ACTION IO-14

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TAGS: EFIN, AORG, UN

SUBJ: UN FINANCES--WORKING GROUP ON CURRENCY INSTABILITY

SUMMARY-WORKING GROUP ON CURRENCY INSTABILITY GOT OFF
TO SLOW START IN FIRST SUBSTANTIVE MEETING. ZIEHL OF
SECRETARIAT AND US REP BOTH MADE LONG STATEMENTS WITH
BRIEFER REMARKS PUT FORWARD BY FRG REP. END SUMMARY

1. FIRST SUBSTANTIVE MEETING OF WORKING GROUP WAS HELD
MARCH 18 DESPITE ABSENCE OF REPS OF CHINA, GHANA, AND
VENEZUELA. CHAIRMAN JAIN OF INDIA WHO IS AT PRESENT
IN ALGIERS ATTENDING NAC COORDINATING MEETING, WAS
REPLACED BY VICE-CHAIRMAN SCHMIDT OF GERMANY. SECRETARIAT
DISTRIBUTED ADDITIONAL DOCUMENTS (POUCHED SAULS--IO/BAPS)
INCLUDING TEXT OF LETTER FROM SWISS FEDERAL POLITICAL
DEPARTMENT SETTING FORTH GOS OPPOSITION TO USE OF SWISS
FRANC FOR PAYMENT OF CONTRIBUTIONS.

2. ONLY TWO MAJOR STATEMENTS WERE MADE IN GROUP BY
SIEHL, ACTING HEAD, OFFICE OF FINANCIAL SERVICES IN
SECRETARIAT AND BY STOTTLEMYER OF US.

3. ZIEHL REPORTED TO GROUP ON LATEST MEETING OF CCAQ
AND REPLIED TO SERIES OF QUESTIONS ADDRESSED TO SECRETARIAT
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BY SOVIET REP. HE NOTED THAT POSSIBILITY OF USING SWISS

FRANCS FOR ASSESSMENTS HAD ALL BUT DISAPPEARED IN LIGHT OF GOS OPPOSITION (A/AC.164/R.8 ANNEX I). PRIOR TO CCAQ MEETING SOME AGENCIES FAVORED ASSESSMENT IN MIX OF CURRENCIES BUT THIS PROPOSAL HAD NOW BEEN DISCARDED. CCAQ ALSO DISCUSSED POSSIBILITY OF ADVANCING SUPPLEMENTARIES BASED ON CHANGES IN VALUE OF CURRENCY SO THAT GOVERNMENTS WOULD BE COMMITTED TO QTE AUTOMATIC PROVISION AGAINST SHORTFALL UNQTE. IT WAS REALIZED BY MOST THAT MEMBER GOVERNMENTS WOULD RESIST SUCH A SUGGESTION. ZIEHL THEN REPLIED TO SOVIET QUESTIONS PARTLY BY REFERRING TO WORKING GROUP DOCUMENTS WHICH LARGELY ANSWERED MANY OF THESE QUESTIONS. ZIEHL POINTED OUT THAT IN SOME INSTANCES AGENCIES OTHER THAN THE UN HAD BEEN ABLE TO DRAW FROM OTHER RESOURCES. WHO, FOR EXAMPLE, MADE USE OF WORKING CAPITAL FUND TO MEET EFFECTS OF CURRENCY FLUCTUATION WHILE FAO WAS ABLE TO ESTABLISH SPECIAL SUPPLEMENTARY FUND. ILO HAD ESTABLISHED ITS OWN WORKING PARTY WHICH WOULD BE FURNISHING A REPORT SHORTLY. THIS WILL BE CIRCULATED TO MEMBERS OF UN WORKING GROUP AS DOCUMENT WHEN AVAILABLE. IN ANSWER TO SOVIET INQUIRY ON EXTENT OF ASSISTANCE BEING PROVIDED BY HOST COUNTRIES TO AGENCIES TO MEET PROBLEMS OF INFLATION, ZIEHL NOTED THAT SIMPLEST ANSWER WAS QTE NONE UNQTE. SAME EXCEPTIONS MIGHT BE CITED IN CASES WHERE HOST COUNTRIES HAVE ABSORBED ADDED COST DURING CONSTRUCTION OF FACILITIES. E.G., CHILEAN GOVERNMENT INCREASED LOCAL COUNTRY CURRENCY TO KEEP PACE WITH INFLATION. IN REPLY TO SOVIET QUESTION ON TAX EXEMPTION, ZIEHL OBSERVED THAT THIS WAS NOT REALLY PART OF THE PROBLEM GROUP WAS STUDYING. HE NOTED, IN GENERAL, TAX SITUATION WAS VIRTUALLY IDENTICAL BETWEEN UN AND ALL SPECIALIZED AGENCIES VIS A VIS THEIR HOST COUNTRIES.

4. USSR REP (PALAMARCHUK) SAID HE WAS QTE PUZZLED UNQTE BY GOS ATTITUDE ON USE OF SWISS FRANCS AND ASKED FOR FURTHER CLARIFICATION.

5. US REP (STOTTLEMYER) DELIVERED LONG INTRODUCTORY STATEMENT (COPY POUNCHED TO HENNES, IO/SEC). PURPOSE OF US STATEMENT WAS TO EMPHASIZE COMPLEXITY OF SUBJECT, AND TO PLACE UN PROBLEMS IN PROPER PERSPECTIVE. STOTTLE-
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MYER OUTLINED NUMEROUS PRINCIPLES WHICH HAD TO BE CONSIDERED IN ANALYZING POSSIBLE MEASURES WHICH COULD BE TAKEN TO EASE PROBLEMS OF UN CAUSED BY CURRENCY FLUCTUATION AND INFLATION. IN PARTICULAR, HE SOUGHT TO UNDERCUT FROM START ANY THOUGHT THAT HOST COUNTRY OR COUNTRY WHICH DEVALUED ITS CURRENCY SHOULD BE HELD RESPONSIBLE FOR LOSSES FELT BY UN. STOTTLEMYER PROPOSED ESTABLISHING CRITERIA AGAINST WHICH ALL PROPOSALS SHOULD BE JUDGED.

6. FRG REP (SCHMIDT) IN STATEMENT STRESSED THAT REAL PROBLEM FACING UN WAS ON EXPENDITURE SIDE. UN, HE BELIEVED, SHOULD ATTEMPT TO FORESEE FLUCTUATIONS IN CURRENCIES, BUT WORKING GROUP SHOULD AVOID GETTING BOGGED DOWN IN PARTICULARS OF FINANCIAL MANAGEMENT QUESTIONS. WORKING GROUP SHOULD LIMIT ITSELF TO PRACTICAL CONSIDERATIONS REALIZING THAT UN MUST LIVE WITH SITUATION AS IT EXISTS. WORKING GROUP SHOULD ALSO REMEMBER IT WAS NOT ESTABLISHED TO ATTEMPT TO CHANGE QTE CRITERIA UNQTE OF SCALE OF ASSESSMENTS.

7. SOVIET REP AND CUBAN REP (SERRANO) PROMISED TO MAKE STATEMENTS LATER. SERRANO NOTED THE BROAD MANDATE OF THE GROUP AND EMPHASIZED THE US AND FRG STATEMENTS SHOULD NOT CONSTRAIN DISCUSSION. STOTTLEMYER REPLIED THAT US HAD NO INTENTION OF CUTTING OFF DEBATE BUT HAD MERELY SUGGESTED QTE APPROACH TO TAKEUNQTE. BENNETT

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